

27 September 2017 | Geneva, Switzerland

Driving Inclusive Growth and Enhancing Intra-African Trade through Service Sector Development :

Services Exports for Growth and Development: Africa's Experience

Sherry STEPHENSON, Senior Fellow ICTSD



Services are behind the new economy reality of 21st century

- Services are **DRIVING ECONOMIC GROWTH.**
- Trade is being led by **FDI FLOWS.**
- Trade is **INCREASINGLY IN INTERMEDIATES** and not final goods (has resulted in operation of **GLOBAL VALUE CHAINS**)
- **SERVICES TRADE IS MUCH MORE IMPORTANT** than previously understood and appreciated – new Data Base on Trade in Value-Added
- **SERVICES Exports are growing in importance across countries of ALL INCOME GROUPS**



New context for trade: global value chains mean that efficient logistics and services key for trade flows

- **Made in the World” (WTO)**: Not one country but many countries involved in producing a single good as well as multiple suppliers of services; goods and services can cross borders many times for a finished product
- New pattern of Trade → Global Value Chains make up around 80% of world trade (UNCTAD estimate)

Logistics Costs (including transport services, communications and efficient border operations) are more important than tariffs and constitute a key factor in competitiveness

WORLD ECONOMIC FORUM ENABLING TRADE REPORT, 2013



All African economies already export services but could do more

- Contrary to a widely held perception, African economies, including the least developed, are engaging actively in producing and exporting services and have secured a comparative advantage in certain sectors already in regional and/or international markets
- 1/3 of African countries are net services exporters

Understanding the opportunities that services offer through the lens of the experiences in these case studies should help African services exporters to engage more effectively in regional and global markets.



Looking at some success stories for African services exports

- Case studies carried out in 2013-2015 were a part of an ongoing effort by the **African Union Commission** to increase awareness of the contribution of services and services exports to African economies and to African regional integration
- Project supported by four international donors, including **USAID, GIZ, UNDP and the EU**
- **Volume published in 2015**; *Case Studies from Africa*, African Union Commission, Addis Ababa, 2015, 420 pages. <http://au.int/en/documents/30769/services-exports-growth-and-development-case-studies-africa>



Five services sectors and five African countries studied

1. Air Transport Services: Ethiopia

Wyanie A. Bright

2. Banking Services: Nigeria

Ramesh Chaitoo and Abiodun Bankole

3. BPO and ICT Services: Senegal

Sekou Falil Doumbouya, Abdoulaye Ndiaye and David Primack

4. Cultural Services: Burkina Faso

Frederic Thomas and M. Yemdaogo Zida

5. Education Services: Uganda

Sherry Stephenson and George Walusimbi-Mphanga



General objectives of case studies

1. To promote the knowledge and understanding of **services trade** so as to provide a basis for service sector development and enhanced regional integration in Africa
2. To provide information on service sectors and on services exports, to be used for **building a repository of 'best practices' on policy conducive to fostering services exports in Africa**
3. To provide information on **how services trade is actually being carried out** in specific sectors in Africa and **what policies have contributed to the success of services exports**
4. Time line for the study: **2013-2015**
5. Geographically diverse countries & sectors studied



Outcomes from Case Studies

1. Most export success has been directed first and primarily at the regional market

In Africa, exporting services first begins at the regional level to neighboring countries, and when successful, sometimes moves further afield

2. Exports that also go beyond African borders

- **BPO/ICT** exports from Senegal are going to France and other franco-phone locations within Europe
- **Air Transport** services by Ethiopia are directed all over the world, with destinations in Europe, North and South America as well as South and East Asia
- **Banking services** from Nigeria are present in international operations in 6 different countries outside of Africa
- **Cultural and Education services** from Burkina Faso and Uganda are enjoyed by a few non-African tourists and students



2. Successful exports in one mode of supply have generated services exports in complimentary modes

- Exports of higher education services by Ugandan universities through attracting foreign students has led to **three universities establishing branch campuses abroad (Mode 2 leads to Mode 3)**
- Exports of air transport services by EAL has led to the **establishment of training schools within the country for pilots and air transport personnel (Mode 1 leads to Mode 2)**
- Exports of banking services by Nigeria has led to the **establishment of foreign branches and subsidiaries, with the accompanying movement of skilled Nigerian personnel in the banking sector (Mode 1 leads to Modes 3 & 4)**
- Exports of BPO/ITC services by Senegal has led to **six subsidiaries being established in other African locations (Mode 1 to Mode 3)**

Importance of having policies in place that favor MODAL NEUTRALITY both at home and in export markets of trading partners so that firms can choose among the modes of supply



3. Certain factors laid the basis for initial advantage in the successful services sector, which in many cases were leveraged into bigger export growth and success over time

All five above countries have been able to parlay or leverage initial advantages into bigger growth and export success over time

- **BPO/ICT services in Senegal** → Skilled entrepreneurs existed with good knowledge of and connections to the French market
- **Cultural services in Burkina Faso** → Naturally very creative artists and musicians and a historical tradition of cultural activities
- **Air transport services in Ethiopia** → The first mover advantage of the establishment of Ethiopian Airlines in 1945 and its geographical hub location
- **Education services in Uganda** → Makerere University established early on and transformed in 1935 to become a centre for higher education in East Africa in serving the needs of the East African region
- **Banking services in Nigeria** → The inflow of foreign exchange from petroleum has provided a surplus of capital on the domestic market to drawn upon for investment abroad



4. The role played by government policy has been critical in helping initial advantages to grow; conversely, the lack of a supportive government policy has hampered further services export growth

- **BPO/ITC activities in Senegal** → While government policies were not present in the beginning, the government **very soon moved to assist the sector** actively through **directed support policies**
- **Cultural services in Burkina Faso** → **Government has provided targeted policies and financial support** for the last three decades)
- **Air transport services in Ethiopia and Banking services in Nigeria** → **Government created appropriate regulatory framework** within which the sector has been allowed to flourish
- **Higher education services in Uganda** → The government has **identified the sector as a policy priority** but has not followed through with specific supportive or facilitating policies

Both a broadly supportive regulatory environment as well as specific support policies have played a positive role in services exports



5. Services exports have grown with impressive success when there has been pro-active, directed government policies

Various types of pro-active policies have been shown to play a positive role in this regard:

- Positive incentives, including subsidies, training programs and tax incentives
- Key trade policy decisions and engagement
- Regulatory reform and sectoral liberalization

As those cases where there has been little Government

Different types of sectors have benefitted from different types of policies ; the key was to fashion the appropriate policies for the needs of the service sector in question



6. Future expansion of successful services exports can be threatened by weaknesses of other service sectors

- **BPO/ICT services** → Lack of a sufficient supply of skilled human resources in the form of trained engineers and computer specialists, through the **weakness of the education sector**
- **Air transport services** → The **inefficiency and shallowness of the financial services** sector constrains the ability of EAL to raise capital and take out loans to expand its operations
- **Education services** → The **regulatory framework for the telecommunications sector** and the lack of availability of a low-cost Internet backbone for the universities constrains development of web-based education program exports
- **Cultural services** → The **weak infrastructure of the tourism sector** that makes it difficult to attract larger audiences to the various cultural fairs and shows

Importance of viewing the entire services environment as determinants of the sustainability of export success, not just the particular sector itself; other services are necessary complimentary inputs into the sector in question



Overall, the case studies underline key factors necessary for export success in services in Africa

- Investment in education and human capital
- Modern digital infrastructure (IT)
- Enabling domestic regulatory environment
- Efficient institutions
- Specific & appropriate support measures for services
- National strategic policy focus on services

SUPPLY SIDE CONDITIONS AND APPROPRIATE SUPPORTIVE POLICIES ARE KEY FOR EXPORT SUCCESS



African economies have great potential in services

- More efficient services are basis for sustained economic growth and participation in supply chains
- Services offer great opportunities for boosting regional trade in Africa & helping to achieve the SDGs



NEED FOCUS ON BOTH MARKET ACCESS FOR SERVICES BUT ALSO ON SUPPLY CONSTRAINTS & SUPPORTIVE POLICIES TO ALLOW SERVICES TO PLAY A CATALYTIC ROLE IN ACHIEVING THE SDGs AND REGIONAL INTEGRATION



Thank you!

Sherry STEPHENSON

sstephenson@ictsd.ch

sherry.stephenson@gmail.com

